

Disinflation in Poland 1990-2004

Przemyslaw Wozniak



Center for Social and Economic Research

Disinflation in Poland 1990-2003

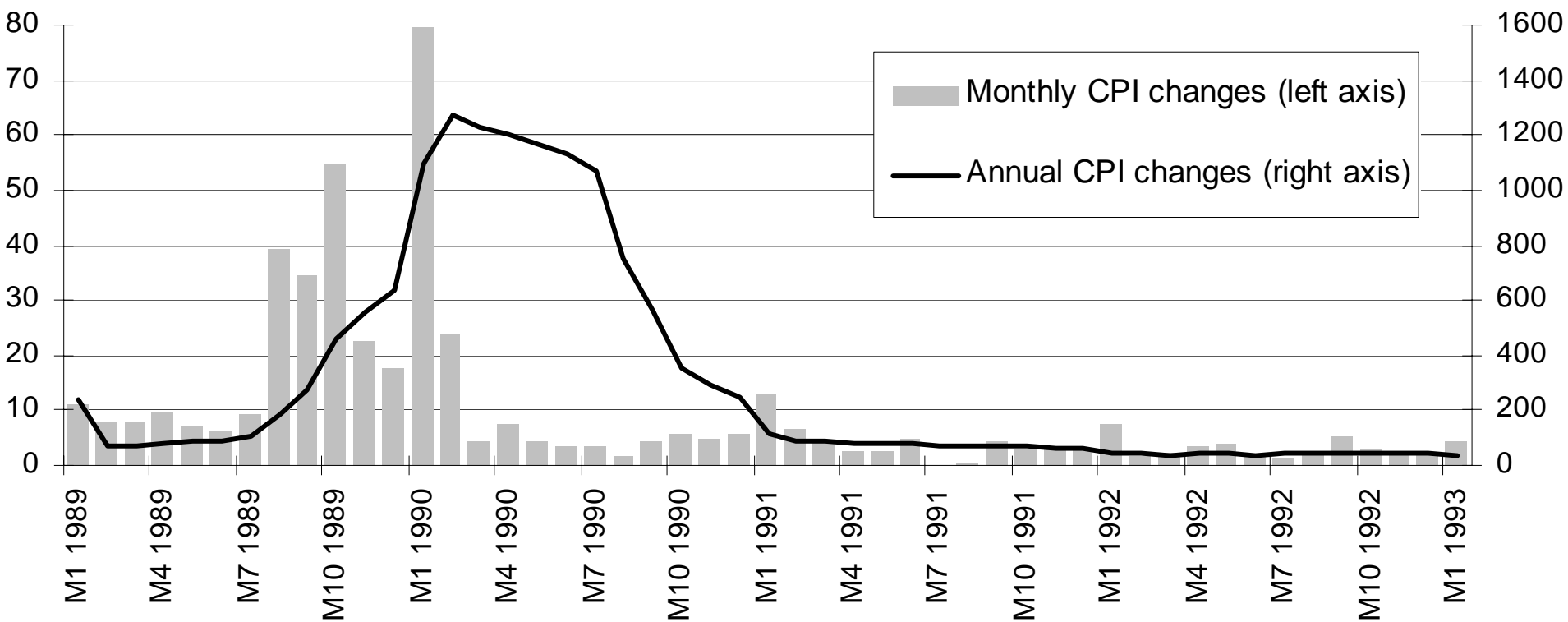
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Shock Therapy

Balcerowicz Plan (introduced in 1990 in near-hyperinflation environment)

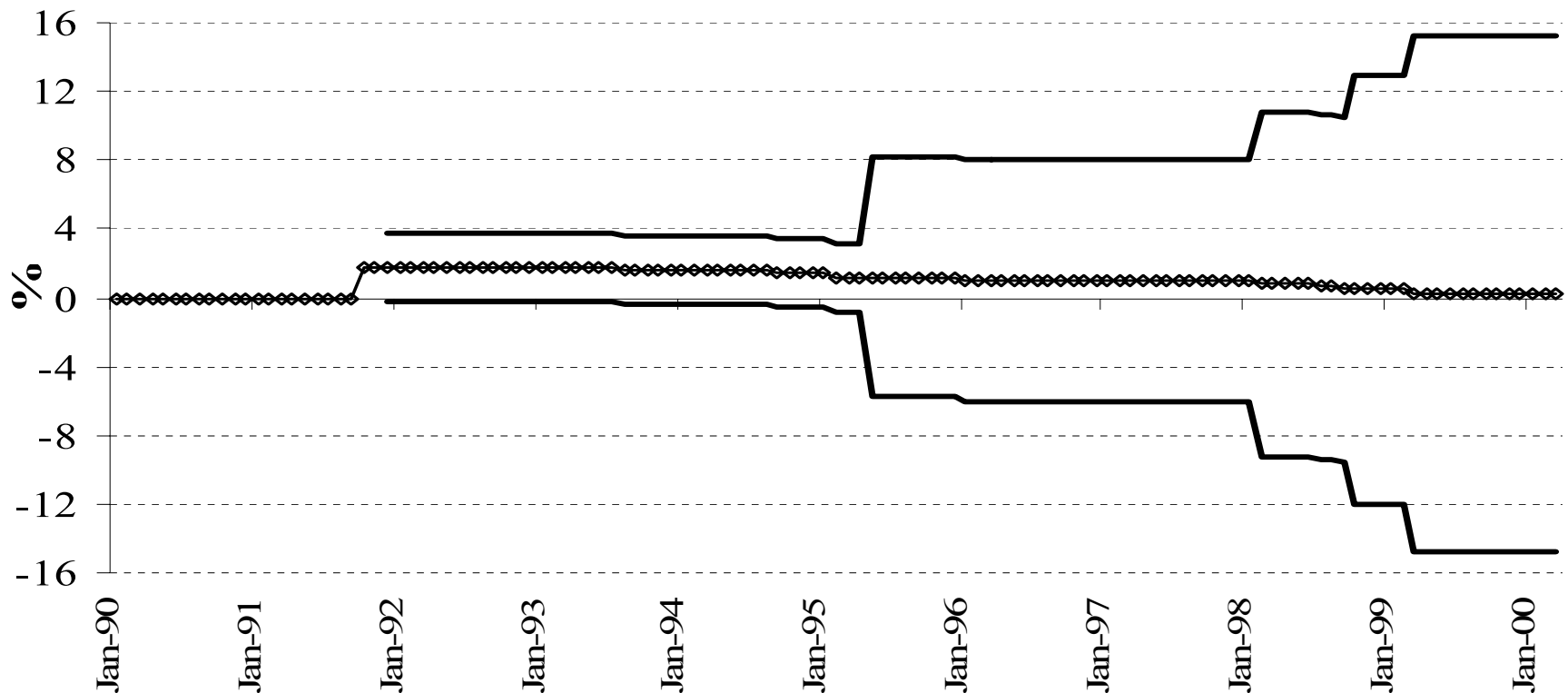
- Reduction of subsidies, liberalization, income policy
- Positive real interest,
- The key role of the exchange rate: unification, internal convertibility, devaluation and freezing for 3 months
- 1 billion USD fund established in support for the zloty

Inflation in Poland 1989-1993



Nominal Exchange Rate Management:

- 1) **Frozen ER** – Jan 90-Sep 91 (devaluation in May 91)
- 2) **Crawling Peg** (with mini- devaluations) - Oct 1991- Mar 2000
- 3) **Floating ER** – since April 2000



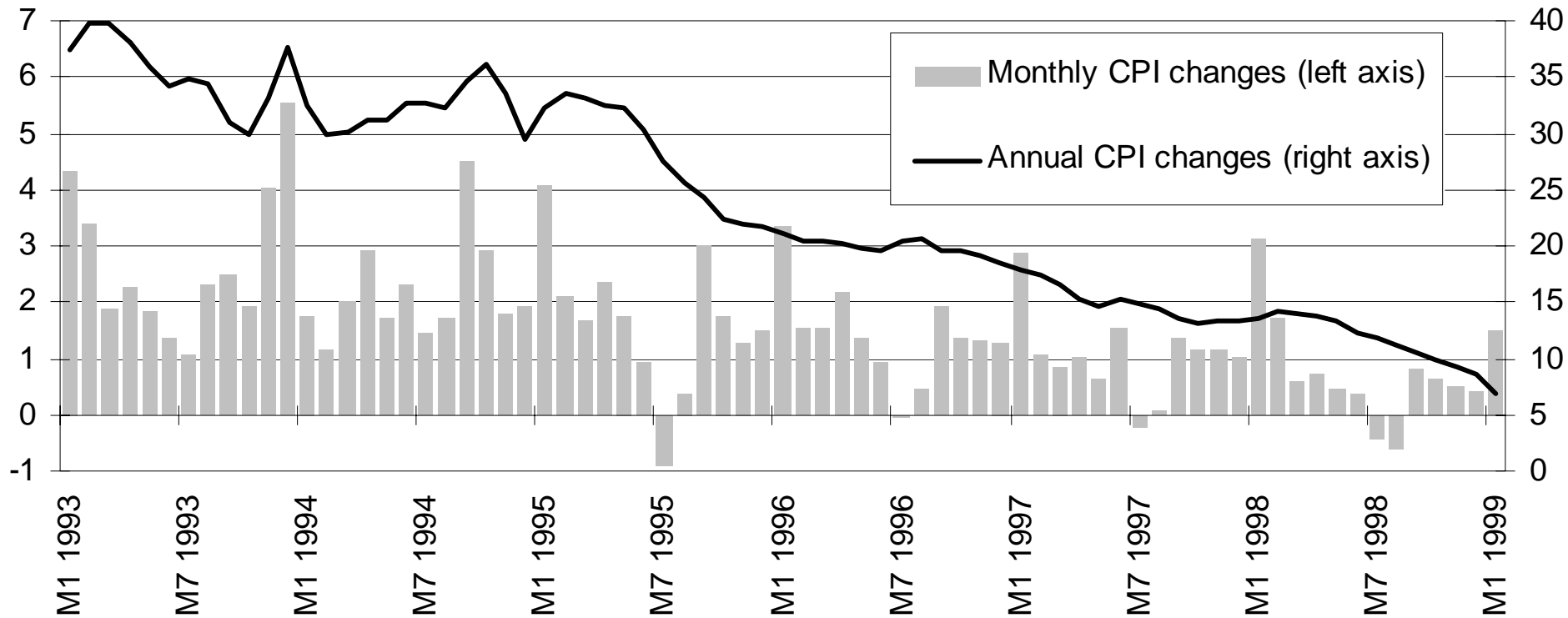
Monetary Policy 1992-1993

- Administrative instruments:
 - credit ceilings,
 - reserve requirement
- Insufficient control of market interest rates
- Problems with controlling inflation and money supply

Eclectic Monetary Policy 1993-1998

- Increased use of market instruments (e.g. OMO)
- Targeting Money & controlling ER
- Problems with controlling Money – massive capital inflows

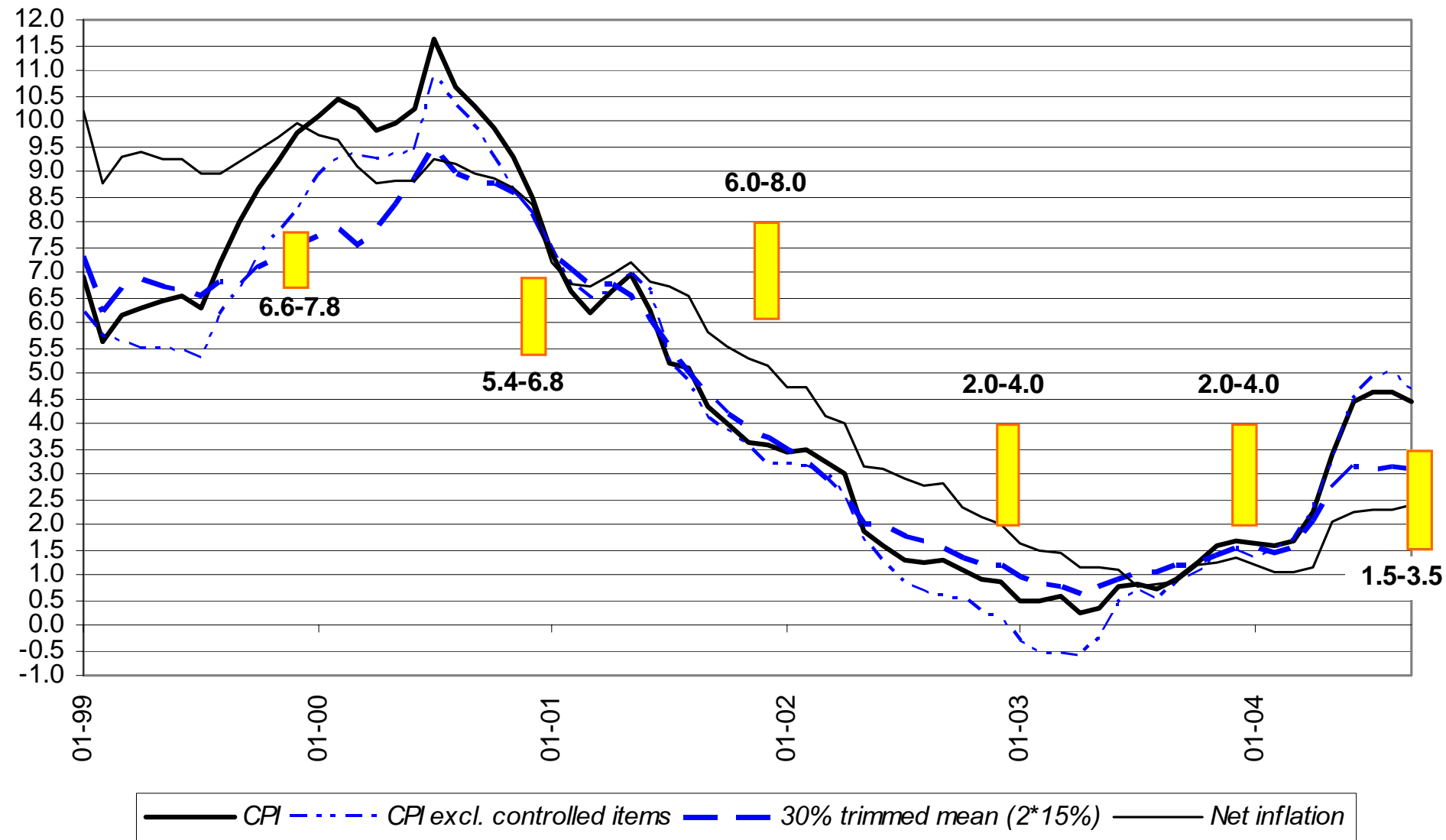
Inflation in Poland 1993-1998



Change of regime in late 1998

- Monetary Policy Council (1998)
- MPC announces switch to Direct Inflation Targeting (from 1999):
 - No official intermediate targets
 - Special role of inflation forecasts
 - Greater transparency (Inflation Reports)
 - Use of core inflation: currently 5 measures:
 - 1) 'net' inflation; 2) inf. excl. controlled prices;
 - 3) 15% trimmed mean; 4) infl. excl. most volatile items;
 - 5) inf. excl. most volatile items and fuel.

Inflation, core inflation and inflation targets 1999-2004



Monetary Policy exercised by MPC

- Monetary Policy Council meets once a month for 2 days
- The MPC analyzes the perspectives of meeting the inflation target and discusses:
 - inflation forecasts (NBP + commercial banks + institutes)
 - inflation perspectives, in particular domestic demand (consumption, accumulation) and supply (GDP, labor market, privatization), external factors (foreign trade, foreign prices)
 - money supply
 - indices of monetary conditions/restrictiveness (MCI)
 - transmission mechanism of monetary policy

Evolution of CPI basket structure

